

Assessing payment adequacy and updating payments for physician services

ISSUE: In the March 2003 report, MedPAC will address three issues concerning Medicare's payments for physician services: Are current payments adequate? How are costs expected to change in 2004? What is an appropriate payment update?

KEY POINTS: To staff, the available information presents a mixed picture on payment adequacy:

- Information on entry and exit of providers and growth in the volume of services suggests that payments were at least adequate in 2002.
- According to MedPAC's 2002 survey of physicians, the percentage of physicians accepting at least some new Medicare patients is about the same as it was in 1999, but the percentage accepting all new Medicare patients is lower.
- Research sponsored by MedPAC shows that the difference between Medicare and private sector payment rates had narrowed in 2000 and 2001, with Medicare's rates at about 80-85 percent of private rates. With the reduction in Medicare's rates in 2002, the difference started to widen again. Still, the difference between Medicare and private rates in 2002 was about where it was in 1999 and was not as great as it was in 1994, when Medicare's rates were only about 66 percent of private rates.

With this assessment of payment adequacy as a backdrop, the update in 2003 is key. Current law requires a negative update for 2003 of 4.4 percent, and CMS is now ready to implement such an update on March 1.

The Congress is expected to consider a change in current law early in the next session. Assuming this occurs and the payment reduction is prevented, payments should be adequate in 2003. This would allow MedPAC to make the following recommendation: For 2004, the Congress should update payments for physician services based on the change in input prices less an adjustment for productivity growth. If the Congress does not act to prevent the payment reduction in 2003, however, then a compensating increase may be necessary with the update for 2004.

ACTION: At this meeting, the Commission will discuss the draft section and make a payment update recommendation.

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Assessing payment adequacy and updating payments for outpatient dialysis services

ISSUE: Do we believe that Medicare's payments for all services provided by outpatient dialysis facilities are adequate? What would be needed to account for anticipated increases in efficient providers' cost next year?

KEY POINTS: Staff conclude that total Medicare payments for dialysis services will be at least adequate in 2003 and that no adjustment for payment adequacy is needed as part of the 2004 update for dialysis services. For freestanding facilities, current payments for composite rate services and separately billable drugs combined exceeded costs by about 4 percentage points in 2001 and our best estimate of the payment-to-cost ratio for 2004 is that it will be no more than 3 percentage points lower than the 2001 level (reflecting 2002 and 2003 payment rules). Staff's assessment of market indicators, including the growth in the capacity of providers to furnish dialysis and changes in the financial health of providers, suggest that aggregate Medicare payments appear to be sufficient relative to efficient providers' costs.

The Commission's update framework accounts for expected cost changes in the coming year primarily through the forecast of input price inflation (the market basket).

Based on our analysis of payment adequacy and expected cost changes in the coming year, staff propose that the Commission recommend that the Congress update the composite rate by the market basket less an adjustment for growth in multifactor productivity for calendar year 2004.

ACTION: Commissioners should discuss the tone, finding, and draft recommendation about updating the composite rate for 2004. The Commission's recommendation about updating payments for dialysis services will be included in the March 2003 report.

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Payment for ambulatory surgical center services

ISSUE: MedPAC will be recommending to the Congress a Medicare payment update for ambulatory surgical center (ASC) services. The Commission will also consider a recommendation that Medicare payment rates for ASC procedures not exceed hospital outpatient PPS rates for those procedures.

KEY POINTS:

- The payment update recommendation will be based on the adequacy of Medicare's current ASC payments and expected changes in ASC costs in the coming year.
- Under current law, ASC rates will be updated for FY 2004 using the consumer price index for all urban consumers.
- Because current data on ASCs' costs are not available, the Commission will use information on various market factors—such as access to capital, entry and exit of providers, and changes in the volume of services—in evaluating the adequacy of Medicare's current ASC payment rates.
- The Commission will base its estimate of the change in ASC costs in the coming year on estimates of input price inflation, scientific and technological advances, and productivity growth.
- There has been rapid growth in the number of Medicare-certified ASCs, which increased by almost 50 percent between 1996 and 2001, from 2,265 to 3,371.
- The volume of Medicare procedures performed in ASCs grew by over 60 percent from 1997 to 2001.
- Accelerating growth in the number of ASCs, the expansion of for-profit chains, and favorable investment ratings imply that ASCs have sufficient access to capital.
- ASC payment rates exceed hospital outpatient PPS rates for several high-volume procedures.

ACTION: At this meeting, the Commission will discuss the draft chapter for the March report and vote on ASC-related recommendations.

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